Financial Report

OF

GEO. A. HORMEL & COMPANY

AUSTIN, MINNESOTA

for the

Fiscal Year Ended October 26, 1957

OFFICERS

H. H. Corey	Chairman of the Board
R. F. Gray	President
R. D. Arney	Vice President
Park Dougherty	Vice President
E. J. Garrity	Vice President
R. D. Gower	Vice President and Controller
T. H. Hocker	Vice President
John R. Jones	Vice President
A. E. Larkin	Vice President
Clarence A. Nockleby	Vice President
J. L. Olson	Vice President
Fayette Sherman	Vice President
Geo. W. Ryan	Treasurer
I. J. Holton	Secretary
R. C. Dougherty	Assistant Secretary
R. H. Biedermann	Assistant Controller
E. H. Larson	Assistant Controller

DIRECTORS

R. S. Banfield
H. H. Corey
Park Dougherty
R. D. Gower
R. F. Gray
T. H. Hocker

A. E. Larkin
Clarence A. Nockleby
J. L. Olson
Geo. W. Ryan
Fayette Sherman
M. B. Thompson

Austin, Minnesota
December 2, 1957

To the Stockholders of
Geo. A. Hormel & Company

The management of your company submits herewith a financial report for the year which ended October 26, 1957.

Net dollar sales for the year were $335,070,774, an increase over last year of 4.9%. This increase in dollar sales reflects a generally higher level of prices for meat products throughout the year.

Sales tonnage for the year was 1,059,710,466 pounds, a decrease under last year of 8.4%, but the third consecutive year in which tonnage has exceeded one billion pounds. The small tonnage decline, the first one in the last eleven years, reflects the marketing of hogs at desirable lighter weights, and the difficulty experienced in procuring and processing livestock at a profit during many periods of the year.

After allowing for all taxes of $4,336,375, net earnings for the year were $3,315,197. Of this sum, $3,228,473 are applicable to common stock, or $5.74 per share as compared with $8.96 a year ago, adjusted for the 10% stock dividend in January of 1957.

As indicated in our interim report in June, 1957, the problem of a more-than-usual fluctuating livestock supply caused operations during the year to be trying and difficult. Although your management is not satisfied with the earnings for the year, we are not wholly displeased with them in view of the procurement and operational problems that existed.

The working capital of the company increased to $23,666,506. The sum of cash, securities and accounts receivable exceeded current liabilities by $7,194,944. Your directors feel that this strong working capital position is very fortunate and advantageous, particularly during a period of tight money when your company has not found it necessary to borrow current short term operating funds from banks.

While maintaining this working capital position, major capital expenditures were made for facilities to provide a substantial increase in the manufacture of gelatin, a complete unit for production of meat baby foods for Beech-Nut Life Savers, Inc., a new and efficient shipping conveyor system, all in the Austin plant, and for needed modernization in some of our outside plants and branches, including the installation of an immobilizer in our Fort Dodge plant. Each of these installations provides opportunities for diversification and increased efficiency, and, more particularly, for an increase in volume and profit.

The net profit per dollar of sales still continues very low as compared with other industries, amounting to one cent per dollar of sales and only 31 cents per hundredweight of product sold.

We continue to price our inventory at the lower of cost or market.

The joint earnings distribution for eligible employees was $1,040,289, or 1.307 checks, based on a 40-hour week. This distribution makes the nineteenth consecutive year in which our employees have shared in the profit of the company through joint earnings.

A pension plan similar to other packers' plans, requiring yearly commitments over 30 years, was negotiated with the unions. This plan and a retirement plan which has been in effect for salaried employees have been submitted to the Treasury Department for formal approval. Because of these plans, no further contributions will be made to the Profit Sharing Trust. The money

in the Profit Sharing Trust belongs to the employees to whom it is credited, and is considered in computing pension or retirement benefits. The sum of $1,250,000 will be paid for the pension plans for this year, which is approximately the same amount as would have been paid into the Profit Sharing Trust.

Under union agreements negotiated in 1956, cost of living wage increases became effective on January 7, 1957, and July 1, 1957, in the amounts of 2 cents and 3 cents per hour, respectively. On September 1, 1957, a general wage increase of 7½ cents per hour became effective.

For the third consecutive year, the company made an advance payment of $1,200,000 on its term loan. This payment reduced the balance on that loan to $8,400,000, with no payment due until November 15, 1958.

In the year, an arrangement was made with Lovell & Christmas of Liverpool, England, whereby SPAM will be manufactured in that country under a royalty arrangement similar to the ones with Burns & Co., Ltd., in Canada and Lunham Brothers Co., Ltd., in Cork, Ireland.

Even though livestock prices throughout the year have been higher, the company has been able to sell and distribute its product through aggressive sales policies, aided materially and effectively by a conservative advertising program consisting of spot radio and television, cooperative advertising such as that on SPAM and Bisquick, selected sectional and national advertising of our principal products, and initial advertising in Reader's Digest.

The Company has made substantial progress in the better planning and layout of manufacturing facilities and in the development of new products, such as six consumer packages of fancy meats, including sliced livers, a full line of dry and semi-dry sausage in consumer packages, a distinctive boneless Del-i-Cut Buffet Ham, foil wrapped, a new pure pork sausage in cloth bags, and two improved shortening products—one, Doh-lite, designed for use by bakeries, and the other a consumer shortening of fine texture and quality with a very desirable high smoke point.

The humane slaughtering of animals has been materially advanced by your company during the past year. We are stunning cattle in all our plants by the new captive bolt method. Substantial improvements have been made in the hog immobilizer on which the company holds a patent in the United States and Canada. It has been, and is being, installed by other packers.

All of us—stockholders, management, production and sales people—must constantly keep in mind that increasing costs in labor and materials can be recovered only through better planning, better workmanship, better production, better department and plant layout, and better selling; otherwise, competition may retard our record of continued progress.

With abundant livestock feed supplies apparently available, and with an estimated increase in numbers of hogs, your company enters the new year with the full expectation of increasing its volume and profit, thereby preserving and expanding job opportunities for our employees and continuing to increase the investment security of our stockholders.

Again, we want to extend our sincere appreciation for the support and cooperation throughout the year of our employees, our customers, our livestock producers and our stockholders.

H. H. COREY
Chairman of the Board

R. F. GRAY
President

Geo. A. Hormel & Comp

Statement of Financial Position

October 26, 1957

CURRENT ASSETS			
Cash		$ 8,190,195	
United States Government securities—at cost which approximates market		5,396,800	
Accounts receivable, less allowance of $100,000		11,312,877	
Inventories of products, livestock, packages and materials—at lower of cost (principally first-in, first-out) or market		16,239,880	
Prepaid insurance and other expenses		231,682	
Total Current Assets			$41,371,434
CURRENT LIABILITIES			
Accounts payable and accrued expenses, including pay rolls, pension trust contributions, etc.		$14,782,163	
Dividends payable November 15		373,337	
Federal taxes on income—estimated		2,549,428	
Total Current Liabilities			17,704,928
WORKING CAPITAL			$23,666,506
PROPERTY, PLANT AND EQUIPMENT on the basis of cost			
Land		$ 381,824	
Buildings ($17,403,775) and equipment	$37,254,500		
Less allowances for depreciation	18,525,834	18,728,666	
Movable equipment — inventoried at cost, less depreciation		752,774	19,863,264
			$43,529,770
LONG-TERM DEBT			
Unsecured notes payable to banks, $1,200,000 due annually on November 15, 1958 through 1963, and on June 30, 1964			8,400,000
STOCKHOLDERS' INVESTMENT (excess of assets over liabilities)—see opposite page			$35,129,770

...pany — Austin, Minnesota

Statement of Stockholders' Investment

Fiscal Year Ended October 26, 1957

PREFERRED STOCK—no change during year			
Cumulative, par value $100 a share:			
Authorized 48,935 shares			
Issued and outstanding 14,454 shares —			
Series A, 6%, callable at $105 a share			$ 1,445,400
COMMON STOCK			
Par value $15 a share:			
Authorized 600,000 shares			
Issued and outstanding:			
Beginning of year — 511,500 shares		$ 7,672,500	
10% stock dividend		767,250	
End of year — 562,650 shares		$ 8,439,750	
Capital in excess of par value arising from common stock issued as stock dividend during the year		1,790,250	10,230,000
EARNINGS REINVESTED IN BUSINESS (in addition to amounts transferred to common stock)			
Balance October 28, 1956		$24,189,657	
Net earnings for the year		3,315,197	
		$27,504,854	
Deduct dividends:			
On preferred stock—in cash $6.00 a share	$ 86,724		
On common stock:			
In cash—$2.50 a share	1,406,260		
In common stock—10%—51,150 shares at $50 a share	2,557,500	4,050,484	
Balance October 26, 1957 (under provisions of long-term debt agreement $16,005,620 not available for cash distributions on common stock)			23,454,370
TOTAL STOCKHOLDERS' INVESTMENT			$35,129,770

STATEMENT OF EARNINGS

Geo. A. Hormel & Company

Fiscal Year Ended October 26, 1957

SALES (less returns and allowances)		$347,989,246	
Less freight and express		12,918,472	
NET SALES			$335,070,774
COSTS, EXPENSES AND TAXES			
Cost of products sold, selling, administrative and general expenses, exclusive of items shown separately		$263,682,200	
Provision for depreciation		2,060,884	
Sundry charges (including interest expense of $572,485) less sundry income		319,449	
Wage costs:			
Wages and salaries, including joint earnings	$ 57,107,525		
Pension trust contributions	1,250,000		
Federal and state unemployment and old age contributions	1,018,760		
Group life, hospitalization and sick leave	1,980,384	61,356,669	
Taxes:			
State income, property and other taxes	$ 1,161,375		
Federal taxes on income—estimated	3,175,000	4,336,375	331,755,577
NET EARNINGS			$ 3,315,197

FINANCIAL INFORMATION

(In thousands of dollars)

	This year (1957)	Last year (1956)	5 years ago (1952)	10 years ago (1947)
Net sales	$335,071	$319,281	$306,163	$226,795
Net earnings	3,315	5,126	2,142	3,229
Wage costs	61,357	61,318	40,383	22,831
Total taxes	4,336	6,286	3,491	2,818
Depreciation	2,061	1,957	1,706	680
Properties (net)	19,863	19,447	15,586	7,097
Working capital	23,667	23,461	15,283	11,438
Stockholders' investment	35,130	33,308	24,969	19,001

Sales tonnage (million pounds)	1,060	1,157	907	645
Net earnings to:				
Net sales	1.0%	1.6%	.7%	1.4%
Sales tonnage (cwt.)	31¢	44¢	24¢	50¢
Per share earnings on common stock (adjusted)	$5.74	$8.96	$3.65	$5.58

ACCOUNTANTS' REPORT

To the Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the financial statements of Geo. A. Hormel & Company for the fiscal year ended October 26, 1957. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying Statements of Financial Position, Earnings, and Stockholders' Investment present fairly the financial position of Geo. A. Hormel & Company at October 26, 1957 and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 19, 1957.